

County of Santa Clara
Facilities and Fleet Department



24-4181

DATE: February 6, 2024 (Item No. {{item.number}})
TO: Board of Supervisors
FROM: Jeff Draper, Director, Facilities and Fleet Department
SUBJECT: Adopt Resolution for Notice of Intent for purchase of 9460 No Name Uno, Gilroy

RECOMMENDED ACTION

Consider recommendations relating to intention to purchase real property necessary to expand access for primary and specialty health services at Saint Louise Regional Hospital.

Possible action:

- a. Adopt Resolution of Intent to Purchase Real Property located at 9460 No Name Uno, Gilroy, California, Assessor's Parcel No. 835-05-033.
- b. Authorize Clerk of the Board to set Tuesday, March 12, 2024, at no earlier than 10:00 a.m., as the date and time to consider acquisition of the Real Property.
- c. Direct Administration to negotiate, sign, amend, or terminate a purchase and sale agreement contingent on Board of Supervisors approval, with the trustee in bankruptcy of the Estate of Elessar Properties, LLC, relating to acquiring the real property at 9460 No Name Uno in an amount not to exceed \$14,000,000, following approval by County Counsel as to form and legality and approval by the Office of the County Executive.
- d. Approve establishment of Capital Improvement Project 263-CP24033 "Purchase 9460 No Name Uno."
- e. Approve Request for Appropriation Modification No. 157- \$14,000,000 transferring funds from 263-CP20002 "Silver Creek Improvements" to Capital Project No. 263-CP24033 "Purchase 9460 No Name Uno."

FISCAL IMPLICATIONS

Funds required for the project augmentation will be transferred from 263-CP20002 "Silver Creek Improvements" to Capital Project 263-CP24033 "Purchase 9460 No Name Uno."

REASONS FOR RECOMMENDATION AND BACKGROUND

In December 2019, recognizing the increasing need for medical services in South County, the County Executive directed the Facilities and Fleet Department (FAF) to pursue the

acquisition of the Medical Office Building (MOB) at 9460 No Name Uno (the “Property”), contiguous with Saint Louise Regional Hospital (SLRH), and a neighboring property at 9360 No Name Uno.

By September 2020, budget considerations led to the cancellation of the purchase of 9460 No Name Uno, focusing solely on 9360 No Name Uno. In January 2021, the County successfully closed escrow on the purchase of 9360 No Name Uno. In November 2020, 9460 No Name Uno was sold to Elessar Properties, LLC (Elessar) for \$9,950,000. The County leases three suites in this building. Deferred maintenance has not been completed under Elessar’s ownership. Elessar has petitioned for bankruptcy, prompting a sale via bankruptcy auction by a trustee and the Administration’s renewed interest in purchasing the property. The sale process will commence with an offering memorandum and a limited period of time to submit offers. After the submittal period closes, the trustee will select one offer to recommend for bankruptcy court approval. After this offer is selected, there will be an opportunity for buyers to submit superior offers. The timeline for this sale process is established by the trustee and bankruptcy court. Therefore, the recommended action is to direct Administration to submit an offer and terms for the purchase and sale of the Property, signed by the County Executive or designee, provided that any terms would be contingent on Board approval on or after March 12, 2024.

The Property is a two-story, 17-unit MOB known as South Valley Medical Pavilion and is currently owned by Elessar. The Property is zoned Park/Public Facility with a General Plan Designation of Public/Quasi-Public Facility and bound by, and adjacent to, Highway 101. The proposed price, excluding closing costs, for the Property is not-to-exceed \$14,000,000 as-is. Additional terms are unknown at this time.

The County’s due diligence investigations indicate the purchase price for the Property should be lower than \$14,000,000. However, the Administration recommends a not-to-exceed amount of \$14,000,000 to permit flexibility in formulating an offer as due diligence and negotiations continue, and to potentially participate in the subsequent phase of the bankruptcy auction if the County’s offer is not accepted in the initial phase.

Market Conditions:

It is anticipated that medical office properties will sustain their positive outlook this year as strong employment in the medical sector and aging demographics align with favorable sector trends to boost performance. Institutional investors, as well as larger fund and real estate investment trusts, are focused on acquiring fully occupied, high quality MOB’s that are near major hospitals or in medical corridors, and the Property location next to SLRH meets those criteria. MOB’s also rent or sell for a higher amount than do professional office buildings, and MOB space in the SLRH area is limited and scarce.

Prior to the Covid Pandemic, the medical office market vacancy in the Bay Area has been historically low, as shown in the chart below, leaving a high demand for this type of asset.

Chart of 2018 Medical Office Market



The proposed purchase price is not-to-exceed \$14,000,000 “as-is” and is subject to further due diligence and an appraisal. During the due diligence process thus far, several building systems were noted to be near or at the end of their useful life. Repairs to key systems is budgeted in the Board-approved FY 2024 Capital Outlay Program.

Acquisition of the Property will not result in a change of use and a purchase would, therefore, qualify as categorically exempt under the California Environmental Quality Act (CEQA) Section 15301 Guidelines.

Per the Government Code, the next step to acquire the Property is for the Board to approve the attached Resolution to notify the public of the County’s intent to acquire the Property and to authorize the Clerk of the Board to set a public hearing for March 12, 2024, no earlier than 10 a.m. PST, allowing the public the opportunity to comment on the acquisition of this real property.

Background

SLRH, a 90-bed acute care hospital offering a wide range of services to residents in both the County of Santa Clara and San Benito County, was acquired in March 2019 as part of a \$235 million-dollar purchase from Verity Health System of California by the County. The purchase also included the 358-bed O’Connor Hospital in San Jose and the De Paul Health Center, an urgent care clinic in Morgan Hill.

CHILD IMPACT

The purchase of the Property would likely have a positive impact on children and youth through the Access to Health Care indicator by maintaining health care facilities in the community.

SENIOR IMPACT

The purchase of the Property would likely have a positive impact on seniors by maintaining health care facilities in the community.

SUSTAINABILITY IMPLICATIONS

The purchase of the Property would have positive environmental sustainability implications by increasing the availability of, and improved access to, medical services in proximity to other health care facilities.

CONSEQUENCES OF NEGATIVE ACTION

The purchase of the Property would not be considered at this time.

STEPS FOLLOWING APPROVAL

- Publish notification of Notice of Intent to Purchase Real Property for three weeks prior to the March 12, 2024 hearing to consummate purchase in accordance with California Government Code 6063.
- Send notification, copy of adopted Resolution, and proof of publication to Qais Sediqi and Sandy Vela of FAF no later than one day after approval.
- Set March 12, 2024, at 10 a.m. as the date and time to consummate acquisition of real property.

ATTACHMENTS:

- Resolution for 9460 No Name Uno